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SUBJECT: PRC-RUSSIA: SNAPSHOT OF RELATIONS AS HU JINTAO
PREPARES TO VISIT MOSCOW

Classified By: Robert Griffiths, Acting Political Section Chief.
Reasons 1.4 (b/d).

Summary

1. (C) Hu Jintao will visit Moscow later this month at a time when many Chinese analysts believe the China-Russia relationship is at an all-time high, according to a leading Chinese academic on Russia. Hu's visit will kick off the Year of China in Russia and will serve as an opportunity for him to meet key leaders, including possible successors to Putin. Bilateral issues, such as military ties, energy and trade, will top the agenda for talks between Hu and Putin. The Shanghai Cooperation Organization (SCO), Northeast Asia and Kosovo will figure among regional and international issues discussed, our contact said. End Summary.

2. (C) Chinese President Hu Jintao will visit Moscow at a time when many Chinese analysts believe China-Russia relations have reached their historically best level, according to the Director of the Chinese Academy of Social Sciences' (CASS) Russia and East Europe Institute Xing Guangcheng. MFA officials previously announced that Hu would visit Moscow at the end of March. Xing confirmed that the visit would probably occur on March 26-29, although he understood the MFA is still finalizing the dates. Hu is slated to open a Chinese exhibition for the start of the China Year in Russia on March 26, Xing said, noting that he had also been invited to that ceremony.

Political, Military & Energy Ties Push Partnership

3. (C) Hu's visit aims to strengthen China and Russia's strategic partnership and implement the political consensus outlined in the China-Russia Friendship Treaty, Xing told us. Hu's visit reciprocates Putin's trip to Beijing in March 2006 for the opening of the Russia Year in China. The mutual "national years" seek to educate the public in both countries, encourage exchange and foster mutual understanding. In addition to talks with Putin, Hu will meet the head of the Duma and several Russian cabinet members, including contenders to succeed Putin as President in 2008, Xing said.

China Interested in Diversifying But Has Little Choice

4. (C) Hu and Putin will likely discuss the strong military-to-military ties between Beijing and Russia, Xing acknowledged. China continues to purchase a large percentage of its advanced military equipment from Russia, although Xing would not confirm reports that the total approaches 90 percent. China would like to diversify the sources of its

advanced military technology, he said, but "American-motivated restrictions" prevent China from purchasing advanced weaponry from the United States, from Israel and help to keep the EU arms embargo against China in place. This leaves China with few places to turn for advanced weaponry other than Moscow, he claimed.

15. (C) China's energy cooperation with Russia, including imports of oil, natural gas and electricity, will also figure in the leaders' discussions, Xing predicted. The Chinese government prefers to have exclusive energy supply agreements and has begun to diversify its energy supplies, given Russian hesitancy about some exclusive deals with China. In this regard, he noted a new pipeline from Kazakhstan and efforts to import energy from Africa and Australia. Still, Russia remains the largest nearby energy source and has lower transport costs to China than the alternatives, Xing said, leading to a mutually beneficial relationship.

16. (C) Russian backtracking on promises to build an oil pipeline to China and hesitancy to finalize arrangements for a second natural gas pipeline have led to some bilateral tension, Xing said. Progress on a natural gas pipeline from Russia that will join the Chinese network at Xinjiang continues, but it appears talks have broken down over a possible second pipeline into China's northeast. Xing said it appears that the second pipeline will go to Vladivostok, where natural gas can be sold on the open market, a decision China "was not happy about, but can live with." Given the tension over pipeline issues, Xing predicted that the leaders would not discuss this issue in much detail and would leave it for other officials to work on.

Border Trade: China Complying with Russian Law

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17. (C) A Russian law restricting foreign traders disproportionately affects Chinese business people, especially in the Russian Far East, Xing said, leaving many Chinese traders unhappy. China has decided to prevent the new law from becoming a significant bilateral issue, instructed its traders to respect the law and urged Chinese business people to work through China's larger trading companies, rather than via more free-wheeling independent traders, he said. Border trade with Russia totaled \$7 billion in 2006, accounting for 20 percent of bilateral trade, according to Ministry of Commerce figures released March 1. China remains interested in increasing its sale of goods to Russia to offset its large imports of arms and energy, Xing noted.

International and Regional Issues

18. (C) Government ministries have consulted him and other scholars more about the bilateral component of Hu's visit and less about the international and regional issues, Xing said, but he nonetheless predicted that the SCO, Northeast Asia and Kosovo would be topics of discussion. Xing, who is also Vice Chair of China's SCO Research Center, said he expects Putin to push for significant Chinese participation in the SCO military exercise, Peace Mission 2007, to be held in July in Russia, as well as to formalize Putin's proposal for an SCO Energy Club. Initially, Putin was not very positive about SCO cooperation, but he has become increasingly interested as China shows it has no intention to dominate the SCO, Xing said.

19. (C) On Northeast Asia, the two would undoubtedly discuss progress in the upcoming round of Six-Party Talks and the future of the Korean Peninsula, Xing said. China also remains concerned about Japan, including Japanese efforts to interfere with China-Russia exclusive energy deals and the Sakhalin natural gas project. Russia remains "very

suspicious" of possible UN action on Kosovo, Xing added. China shares some of Russia's concerns about the negative precedent that could be set if the UN interferes to divide Serbia without Belgrade's agreement and the possibility of reigniting instability in the Balkans, Xing said.

¶10. (C) Bio Note: This was our first meeting with Xing since he was promoted to be Director of CASS' Russia Institute after spending 2006 at China's Central Party School, a training year typically given to rising stars within the Party. Xing's discussion included frequent mention of Hu Jintao's "harmonious world" and "harmonious region" concepts, especially on the SCO. He remained the candid interlocutor we dealt with in the past and he openly discussed issues about which the MFA is rarely willing to comment.
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